

MARKET RECAP

19 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,387.87 (-0.85%)	68,986,607.64	(10,850,910.35)	25.30 (+0.80%) = 1,352.69	53.469

Market Recap

- Philippine shares succumbed to profit-taking as trade war jitters once again weighed on sentiment, with investors awaited further moves in global trade disputes.
- The benchmark Philippine Stock Exchange Index (PSEi) tumbled 63.50 points or 0.85% to close at 7,387.87. Meanwhile, the broader All Shares index lost 30.07 points or 0.67% to 4,462.44 at the closing bell.
- The Manila-based Asian Development Bank issued a revised economic forecast for the region and for major industrial economies that kept mostly unchanged the estimates for growth it made in April, though it warned that trade tensions pose "a clear downside risk to the outlook for developing Asia." It forecast growth for the region at 6.0% in 2018 and 5.9% for 2019.
- Federal Reserve Chairman Jerome Powell wrapped up his semi-annual testimony to Congress about economic and monetary policy with an overall positive assessment. However, he warned that trade battles with China and higher U.S. tariffs on foreign products might require a change of strategy.
- The tone is little changed. That said, the market lacks real conviction amid the waffling sentiment.
- While optimism on strong corporate earnings certainly help boost sentiments, clearly that's not enough to push the stocks meaningfully higher from here.
- Trade war fears are something that won't go away overnight. Investors need to be prepared for various possibilities, such as the United States versus China and the United States versus European Union.
- More than 672.724-mil shares, valued at P3.688-bil, changing hands. Market breadth was negative, with losers beating winners, 117 to 72, with 46 issues unchanged.
- Gainers: DMC (+1.45%), GLO (+0.58%), MER (+0.56%), URC (+0.15%), TEL (+0.07%)
- Laggards: GTCAP (-4.13%), MPI (-3.48%), AC (-2.96%), LTG (-2.30%), MEG (-1.93%)

Monetary Policy Forecasts

- The central bank is widely seen to hike its key interest rates to curb higher-than-expected inflation in its next monetary setting on Aug. 9.
- Many say it's now just a question of whether it will deliver the usual 25-basis point increase or will go for a more aggressive 50-basis point hike.
- With year-on-year inflation rate hitting a five-year high of 5.2% in June, British banking giant HSBC said a "more forceful" response from the inflation-targeting Philippine central bank may be expected as the "June stock" had broad implications.
- HSBC expects a 50-bp (basis point) rate hike at its next policy meeting (presumably in August) in recognition that inflation is now significantly higher than initially expected and to show the central bank's resolve to curtail it as soon as possible.
- The banking giant sees a 25-bp hike as largely priced in, while a 50-bp rate hike would be seen as more preemptive as it takes into account that inflation will be higher over the near term and be above target for longer than expected—not merely as a reaction to higher-than-expected prices in June.
- HSBC now sees inflation peaking at about 5.5%, while core inflation is seen to hover above 4% all the way to Q1 of 2019.
- Moreover, another inflation shock cannot be completely ruled out as the June print likely further heightens inflation expectations and may lead to another round of broad-based price increases. It also largely minimizes the effects of inflation mitigating measures (such as rice tariffication) over the near term.
- Standard Chartered Bank said the central bank might raise its overnight borrowing rate for a third consecutive time this year from 3.5% to 3.75% on Aug. 9 and pause thereafter.
- The central bank is expected to pause after its August meeting, in September, to evaluate the impact of three successive rate hikes. Inflation is likely to slow (albeit remaining elevated) in Q4, reducing pressure on central bank to hike further, Standard Chartered said.
- Stanchart expects Philippine inflation to edge up further in Q3, likely peaking at 5.8% in August and remaining high through 2018 and 2019.

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Monetary Policy Forecasts (continued)

- Stanchart continues to believe the increase in inflation, partly due to VAT (value added tax) hikes, is stickier than the central bank's forecasts. The VAT hike on fuel has only just been transmitted to transport prices, as seen in the recent pickup in transport inflation. The second-round impact is expected only in H2 2018, as the bank forecasts higher transport prices pushing up supply chain costs to be a longer process. This process is likely to continue in Q3, keeping transport prices high.
- Transport contracts in the supply chain industry are typically fixed semiannually, which means higher fuel costs are transferred to the supply chain with a lag of about six months, the British bank said.
- Food inflation is also likely to remain high on high rice and fish prices, despite government efforts to reduce supply-side pressures. Risks to inflation are to the upside on higher oil prices and a weaker currency.
- While rice inflation has garnered more market attention as a key driver of food inflation, given its historically important role as a main staple, Stanchart said it was fish that had been the bigger driver of inflation, despite its smaller weight in the inflation basket.
- Stanchart expects fish inflation to remain high, and possibly rise further in Q3 typhoon season. This is likely to keep food inflation—which moderated mildly in May—elevated, maintaining upside pressure on headline inflation.

PAL

- Singapore Airlines is the best airline in this planet this year, edging out 2017 winner Qatar Airlines, according to leading consumer aviation website Skytrax.
- Lucio Tan's Philippine Airlines cracked the top 50, ranking 49th or 18 notches higher than its position the previous year.
- Singapore Airlines also bagged the World's Best First Class, Best Airline in Asia and Best First Class Airline seat.
- The Skytrax rankings are based on the impressions of 20.36-mil travelers from more than 100 different countries. The survey, which covered more than 335 airlines, measured 49 parameters ranging from boarding procedures to seat comfort to the quality of service.

GLO

- Globe Telecom Inc. is welcoming competition with open arms.
- As repeatedly stated before, Globe is not opposed to the entry of a third player, or for that matter, as many players that the market can accommodate. Globe has always geared itself for growth and competition.
- Competition has the potential of opening up new sources of revenue streams for telecommunications players while benefiting consumers with more innovative products and services at competitive rates.
- To help foster competition, Globe recently took a step forward to fulfill its plans to divest its tower assets. It started the process of incorporating a separate tower holding company.
- This initiative will allow the third player to rapidly roll out its network and launch commercial operations. It will also give smaller players the opportunity to scale up their business without the burden of high capital expenditures.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$77.675-B (June 2018)
Fiscal Surplus / (Deficit)	(P32.9-B) (May 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US\$583-M) (May 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

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